

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
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R 171153Z JAN 78
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 8766
INFO AMEMBASSY COLOMBO
AMEMBASSY DACCA
AMEMBASSY ISLAMABAD
AMEMBASSY KATHMANDU
AMEMBASSY LONDON
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

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PASS TREASURY

E.O. 11652: N/A
TAGS: EFIN, IN
SUBJECT: HIGH VALUE RUPEE NOTES DEMONETIZED

1. BEGIN UNCLASSIFIED. FOLLOWING A SECRET EMERGENCY MEETING
OF THE CABINET ON JANUARY 16, THE PRESIDENT PROCLAIMED AN ORDINANCE
DEMONETIZING CURRENCY NOTES WITH DENOMINATIONS OF RS. 1,000, RS
5,000, AND RS. 10,000, EFFECTIVE JANUARY 17. THESE NOTES NOW
CEASE TO BE LEGAL TENDER, AND MUST BE EXCHANGED AT DESIGNATED
BRANCHES OF THE RESERVE BANK OF INDIA (RBI), STATE BANK, OR
PUBLIC SECOTR BANKS BY JANUARY 19, OR AT THE RBI BY JANUARY
24 IF THE DELAY CAN BE ADEQUATELY EXPLAINED. AT THE TIME OF
EXCHANGE CREDIT IN A PROPERLY INTRODUCED ACCOUNT AT ANY SCHEDULED
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BANK IS PROVIDED, BUT A FULL EXPLANATION MUST BE GIVEN REGARDING
THE SOURCE OF THE HIGH DENOMINATION NOTES AND THE TIME AND
MANNER OF THEIR ACQUISITION. ALL BANKS AND GOVERNMENT TREASURIES
ARE CLOSED ON JANUARY 17 TO ENABLE THEM TO SUBMIT TO THE
RBI ON THE SAME DAY STATEMENTS LISTING THEIR HOLDINGS OF HIGH
DEMONIATION NOTES.

2. ACCORDING TO AN ACCOMPANYING PRESS NOTE, THE ORDINANCE WAS PROMULGATED BECAUSE QUOTE THERE ARE REASONS TO BELIEVE THAT THE AVAILABILITY OF CURRENCY NOTES OF THE DENOMINATION OF RS. 1,000 AND ABOVE FACILITATES THE ILLICIT TRANSFER OF MONEY FOR FINANCING TRANSACTIONS WHICH ARE HARMFUL TO THE NATIONAL ECONOMY OR WHICH ARE FOR ILLEGAL PURPOSES UNQUOTE. END UNCLASSIFIED. BEGIN LOU

3. COMMENT. THE LAST DEMONETIZATION OCCURRED IN 1946 WHEN NOTES OF RS. 500 AND OVER WERE WITHDRAWN. IN RECENT YEARS DEMONETIZATION HAS BEEN REPEATEDLY DEMANDED IN PARLIAMENT. WHETHER THE CURRENT WITHDRAWAL OF HIGH DENOMINATION NOTES FROM CIRCULATION WILL HAVE ANY SIGNIFICANT EFFECT ON BLACK MARKET OPERATIONS IS DOUBTFUL. ACCORDING TO THE LATEST RBI DATA (AS OF MARCH 1976), THE TOTAL VALUE OF THE THREE HIGH VALUE NOTES AMOUNTED TO RS. 1.1 BILLION, OR LESS THAN TWO PERCENT OF TOTAL CURRENCY OF RS. 71.4 BILLION IN CIRCULATION THEN. SEVERAL EX-RBI OFFICIALS HAVE REPORTEDLY SAID THAT THE HIGH DENOMINATION NOTES WERE PRIMARILY USED BY BANKS FOR TRANSFERS. SOME OBSERVERS HAVE SPECULATED THAT THE MEASURE IS PARTIALLY AIMED AT ILLEGAL CURRENCY HOLDINGS OF POLITICIANS, PARTICULARLY MRS. GANDHI AND TOP CONGRESS PARTY OFFICIALS. THE GENERAL CONSENSUS APPEARS TO BE, HOWEVER, THAT THE DEMONETIZATION ALONE WILL NOT HURT BLACUSMONEY OPERATORS BECAUSE THEIR ASSETS ARE NOT GENERALLY IN HIGH DENOMINATION RUPEE NOTES. END LOU.

GOHEEN

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Message Attributes

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Draft Date: 17 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
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Disposition Approved on Date:
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